

## Message Text

LIMITED OFFICIAL USE

PAGE 01 OECD P 01900 01 OF 03 211254Z

47

ACTION EUR-12

INFO OCT-01 ISO-00 AID-05 CEA-01 CIAE-00 COME-00 EB-07

EA-07 FRB-03 INR-07 IO-11 NEA-10 NSAE-00 OPIC-03

SP-02 TRSE-00 CIEP-01 LAB-04 SIL-01 OMB-01 L-03 SS-15

NSC-05 XMB-02 STR-04 FEAE-00 /105 W

----- 074237

R 211221Z JAN 76

FM USMISSION OECD PARIS

TO SECSTATE WASH DC 0189

INFO AMEMBASSY THE HAGUE

LIMITED OFFICIAL USE SECTION 01 OF 03 OECD PARIS 01900

PASS CEA, TREASURY, FRB

E.O.11652: N/A

TAGS: ECON, OECD

SUBJECT: ECONOMIC AND DEVELOPMENT REVIEW COMMITTEE (EDRC)

REVIEW OF NETHERLANDS, JANUARY 13, 1976

1. SUMMARY: DURING EDRC REVIEW OF NETHERLANDS, DUTCH DELEGATION (LED BY PUTTER OF ECONOMICS MINISTRY) WAS CONSIDERABLY MORE OPTIMISTIC THAN SECRETARIAT CONCERNING 1976 EVOLUTION OF MOST MAJOR DEMAND COMPONENTS, AND FORECASE 3 PERCENT INCREASE IN DUTCH REAL GDP COMPARED WITH 1.25 PERCENT PROJECTED BY SECRETARIAT. IN REVISED SURVEY, SECRETARIAT WILL TAKE ACCOUNT OF LATEST DUTCH FIGURES SHOWING GREATER-THAN-EXPECTED STRENGTH AT END OF 1975 AND WILL LIKELY SHADE ITS FORECASTS UPWARD IN DIRECTION OF DUTCH ESTIMATES. SECRETARIAT (ANDERSEN) STRESSED, HOWEVER, THAT EVEN TOTAL ACCEPTANCE OF DUTCH FORECAST WOULD NOT ALTER SECRETARIAT'S ANALYSIS AND POLICY PRESCRIPTION THAT FEEBLE RECOVERY, GROWING UNEMPLOYMENT, LOW BUDGET DEFICIT AND LARGE EXTERNAL SURPLUS ALL POINTED IN SAME DIRECTION - MORE STIMULUS, AND QUICKLY. DUTCH

LIMITED OFFICIAL USE

LIMITED OFFICIAL USE

PAGE 02 OECD P 01900 01 OF 03 211254Z

DISAGREED STRONGLY, SAW INFLATION CONSTRAINT AS BINDING

AND STATED INTENTION TO GO WITH CURRENT POLICIES UNLESS THEIR 1976 FORECASTS SHOULD PROVE MUCH TOO OPTIMISTIC. DUTCH JOINED IN EDRC CONSENSUS THAT REDUCTION IN SOCIAL SECURITY TAX BURDEN ON FIRMS WOULD BE ESSENTIAL FIRST STEP IN SOLVING MAJOR MEDIUM-TERM PROBLEMS: GROWING SHARE OF PUBLIC SECTOR IN GDP; DECLINING PROFITS AND INVESTMENT; AND RISING UNEMPLOYMENT. HOWEVER, DUTCH AND SECRETARIAT REMAINED SPLIT ON TIMING OF REDUCTION, WITH SECRETARIAT CALLING FOR EARLY ACTION AND WITH DUTCH, CITING DANGER OF INFLATION, INSISTING ON POSTPONEMENT. EDRC REACHED NO CLEAR CONSENSUS ON ISSUE OF TIMING. END SUMMARY.

2. SHORT-TERM PROSPECTS FOR DOMESTIC ECONOMY: DUTCH FORECAST 3 PERCENT INCREASE IN REAL GDP IN 1976, WITH MAJOR SOURCES OF STRENGTH BEING 2.5 PERCENT INCREASE IN PRIVATE CONSUMPTION, 3 PERCENT INCREASE IN GOVERNMENT CONSUMPTION, AND 1.5 PERCENT CONTRIBUTION TO 1976 GDP FROM STOCK ACCUMULATION. HOWEVER, DUTCH EXPECT DROP OF 7 PERCENT IN 1976 IN PRIVATE FIXED INVESTMENT BECAUSE OF SUBSTANTIAL SPARE CAPACITY, FALLING PROFITS (ATTRIBUTABLE TO RISING SOCIAL SECURITY CONTRIBUTIONS AND TENDENCY OF WAGES TO RISE FASTER THAN PRICES). THUS, DESPITE STRENGTH IN PRIVATE AND PUBLIC CONSUMPTION, DUTCH SEE ONLY 1 PERCENT INCREASE IN FINAL DOMESTIC DEMAND. SECRETARIAT MORE PESSIMISTIC, PROJECTING ONLY 1.25 PERCENT INCREASE IN GDP. IT FORECASTS 0.25 PERCENT INCREASE IN FINAL DOMESTIC DEMAND, 1.5 PERCENT INCREASE IN PRIVATE AND GOVERNMENT CONSUMPTION AND ONLY MINOR SUPPORT FROM STOCKS MOVEMENTS. (SECRETARIAT FORECASTS CONTRIBUTION TO 1976 GDP OF ONLY 0.5 PERCENT FROM STOCKBUILDING.) IN REVISED SURVEY, HOWEVER, SECRETARIAT WILL TAKE ACCOUNT OF LATEST DUTCH FIGURES WHICH INDICATE THAT INVENTORY RUNOFF IN 1975 HAD BEEN GREATER THAN EXPECTED AND WHICH SHOW RECENT STRENGTH IN PRIVATE CONSUMPTION, INDUSTRIAL PRODUCTION AND IMPORT GROWTH. THUS, REVISED SECRETARIAT ESTIMATES WILL MOVE TOWARD DUTCH FORECASTS. SECRETARIAT (ANDERSEN) STRESSED, HOWEVER, THAT EVEN TOTAL ACCEPTANCE BY SECRETARIAT OF DUTCH PROJECTIONS WOULD NOT LEAD SECRETARIAT TO CHANGE ITS POLICY RECOMMENDATIONS (SEE LIMITED OFFICIAL USE

LIMITED OFFICIAL USE

PAGE 03 OECD P 01900 01 OF 03 211254Z

PARA 7).

3. WAGES AND PRICES: DUTCH AND SECRETARIAT AGREE THAT CONSUMER PRICES AND AVERAGE EARNINGS ARE LIKELY TO RISE BY ABOUT 9 PERCENT IN 1976. DUTCH SEE CONSIDERABLE UPSIDE RISK IN THEIR FORECAST AND FEEL THAT POSSIBILITY OF INFLATIONARY OUTBURST IS MAJOR CONSTRAINT ON THEIR ABILITY TO REFLATE FURTHER IN 1976. SECRETARIAT STRESSED

THAT REPLACEMENT OF AD HOC STATUTORY WAGE/PRICE CONTROLS  
WITH LONGER-TERM CENTRALIZED AGREEMENT WOULD RELAX  
INFLATION CONSTRAINT. OTHER DELS PICKED UP THIS SECRE-  
TARIAT POINT AND ADDED THAT COMBINATION OF PRICE CON-  
TROLS AND WAGE INDEXATION UNDER STATUTORY REGULATIONS  
ONLY EXACERBATED PROFIT POSITION OF FIRMS. DUTCH AGREED

LIMITED OFFICIAL USE

NNN

LIMITED OFFICIAL USE

PAGE 01 OECD P 01900 02 OF 03 211249Z

47

ACTION EUR-12

INFO OCT-01 ISO-00 AID-05 CEA-01 CIAE-00 COME-00 EB-07

EA-07 FRB-03 INR-07 IO-11 NEA-10 NSAE-00 OPIC-03

SP-02 TRSE-00 CIEP-01 LAB-04 SIL-01 OMB-01 L-03 SS-15

NSC-05 XMB-02 STR-04 FEAE-00 /105 W

----- 074159

R 211221Z JAN 76

FM USMISSION OECD PARIS

TO SECSTATE WASH DC 0190

INFO AMEMBASSY THE HAGUE

LIMITED OFFICIAL USE SECTION 02 OF 03 OECD PARIS 01900

IN PRINCIPLE WITH THESE COMMENTS, BUT FELT THAT PROS-  
PECTS WERE DIM FOR A CENTRALIZED AGREEMENT, AND THAT  
STATUTORY WAGE INDEXATION HAD ONLY RATIFIED LABOR'S DE  
FACTO ABILITY TO MAINTAIN ITS REAL INCOME. IN FACT,  
DUTCH FELT THAT WITHOUT INDEXATION WAGE INCREASE WOULD  
PROBABLY BE IN EXCESS OF PRICE INCREASES.

4. EMPLOYMENT: DUTCH FORECAST RISE IN UNEMPLOYMENT  
RATE TO 5.5 PERCENT IN 1976 FROM 5 PERCENT IN 1975,  
WHILE SECRETARIAT SEES INCREASE FROM 5 PERCENT TO 6 PER-  
CENT. DUTCH, HOWEVER, MAKE DISTINCTION BETWEEN STRUC-  
TURAL AND CYCLICAL UNEMPLOYMENT, AND SEE RISE IN 1976

UNEMPLOYMENT RATE RESULTING FROM DROP IN CYCLICAL UNEMPLOYMENT RATE COMBINED WITH MORE-THAN-OFFSETTING INCREASE IN STRUCTURAL UNEMPLOYMENT RATE. IN DUTCH VIEW, CHANGES IN DEMAND MANAGEMENT POLICY ONLY AFFECT CYCLICAL UNEMPLOYMENT, WHICH IS FALLING ANYWAY; THUS THEY ARGUED THAT PROSPECTIVE RISE IN OVERALL UNEMPLOYMENT RATE IN 1976 DOES NOT ARGUE FOR GREATER STIMULUS.

LIMITED OFFICIAL USE

LIMITED OFFICIAL USE

PAGE 02 OECD P 01900 02 OF 03 211249Z

5. CURRENT ACCOUNT: FOR 1976, DUTCH SEE THEIR EXPORT MARKETS INCREASING BY 5 PERCENT (THEY ASSUME 6 PERCENT INCREASE IN GERMAN MARKET, WHICH ACCOUNTS FOR 30 PERCENT OF DUTCH EXPORTS), EXPORT VOLUME INCREASE OF 7 PERCENT AND IMPORT VOLUME INCREASE OF 3 PERCENT, RESULTING IN RISE OF CURRENT ACCOUNT SURPLUS TO 6 BILLION GUILDERS FROM THE 4 BILLION GUILDER SURPLUS EXPECTED IN 1975. (DUTCH ESTIMATE THAT NATURAL GAS WILL CONTRIBUTE 12.5 BILLION GUILDERS TO BOTH 1975 AND 1976 CURRENT ACCOUNT SURPLUS.) SECRETARIAT ALSO FORECASTS LARGER CURRENT ACCOUNT SURPLUS IN 1976 (4.41 BILLION GUILDERS AS AGAINST 5.6 BILLION GUILDERS IN 1975), BUT AT A LOWER LEVEL OF OVERALL ACTIVITY (3.75 PERCENT INCREASE IN EXPORT VOLUME; 3 PERCENT INCREASE IN IMPORT VOLUME), WITH A SMALLER CONTRIBUTION (5 BILLION GUILDER) OF NATURAL GAS PRODUCTION. NEVERTHELESS, DUTCH AND SECRETARIAT AGREE THAT CURRENT ACCOUNT WILL NOT BE A POLICY CONSTRAINT IN COMING YEAR.

6. IN RESPONSE TO QUESTIONS CONCERNING EFFECT OF GROWING SURPLUS ON VALUE OF GUILDER, DUTCH EXPRESSED INTENTION TO HOLD GUILDER WITHIN SNAKE IN ORDER TO ASSURE STABILITY OF GUILDER RATE VIS-A-VIS MAJOR DUTCH TRADING PARTNERS.

7. POLICY: RECALLING CONCLUSION OF NOVEMBER EPC MEETING THAT COUNTRIES WITH EXTERNAL SURPLUS SHOULD TAKE LEAD IN PROMOTING RECOVERY IN OECD AREA, SECRETARIAT NOTED THAT IN ADDITION TO HAVING SUBSTANTIAL EXTERNAL SURPLUS, ECONOMIC IMPACT OF DUTCH FISCAL POLICY WAS CLOSE TO NEUTRAL IN 1975 AND WILL BE ONLY marginally EXPANSIONARY IN 1976. SECRETARIAT THUS REACHED GENERAL CONCLUSION THAT RISING UNEMPLOYMENT, FALLING PRIVATE INVESTMENT, ROOM FOR MANEUVER IN BUDGET AND EXTERNAL SURPLUS ALL POINTED TO DESIRABILITY OF DUTCH TAKING ADDITIONAL STIMULATORY MEASURES EARLY IN 1976. SPECIFICALLY, SECRETARIAT SUGGESTED THAT PROMPT LOWERING OF SOCIAL SECURITY CONTRIBUTIONS BY FIRMS WOULD HAVE APPROPRIATE STIMULATIVE EFFECT, WOULD HELP ELIMINATE ONE IMPORTANT SOURCE OF COST AND PRICE PRESSURES, AND WOULD IMPROVE

PROFITABILITY OF FIRMS, THEREBY STIMULATING INVESTMENT.  
LIMITED OFFICIAL USE

LIMITED OFFICIAL USE

PAGE 03 OECD P 01900 02 OF 03 211249Z

8. DUTCH ARGUED THAT ON A CASH BASIS GOVERNMENT FINANCING REQUIREMENT WOULD GROW FROM 9 BILLION GUILDER IN 1975 TO 16.7 BILLION GUILDER IN 1976, AND THAT TRANS-ACTIONS MEASURE OF DEFICIT MORE RELEVANT IN TERMS OF ECONOMIC IMPACT THAN NATIONAL ACCOUNTS MEASURE CITED BY SECRETARIAT. DUTCH EXPRESSED VIEW THAT ANY WIDENING OF BUDGET DEFICIT (E.G. BY EARLY LOWERING OF BUSINESS' SOCIAL SECURITY TAXES) WOULD LEAD TO MORE RAPID INFLATION AND TO CROWDING OUT IN DOMESTIC CAPITAL MARKETS WITH RESULTANT RISE IN INTEREST RATES, INCREASE IN CAPITAL INFLOWS AND FURTHER UPWARD PRESSURE ON GUILDER.

9. MEDIUM-TERM PROBLEMS: EDRC CONSENSUS WAS THAT MEDIUM-TERM DUTCH POLICY OBJECTIVE SHOULD BE TO REVERSE TREND OF EXPANSION OF PUBLIC SECTOR AND TO INCREASE RATE OF PRIVATE INVESTMENT SPENDING. DUTCH AGREED WITH THIS VIEW AND ADDED THAT THE TWO PROBLEMS WERE CLOSELY RELATED. THEY NOTED THAT GOVERNMENT SPENDING ALREADY ACCOUNTED FOR 48 PERCENT OF GDP, THAT ANNUAL RATE OF INCREASE IN THE PUBLIC SHARE OF GDP EXPECTED TO RISE FROM 1.5 PERCENT IN 1975 TO 1.75 PERCENT IN 1976 AND THAT UNLESS THIS TREND WERE REVERSED THE GOVERNMENT

LIMITED OFFICIAL USE

NNN

LIMITED OFFICIAL USE

PAGE 01 OECD P 01900 03 OF 03 211239Z

47

ACTION EUR-12

INFO OCT-01 ISO-00 AID-05 CEA-01 CIAE-00 COME-00 EB-07

EA-07 FRB-03 INR-07 IO-11 NEA-10 NSAE-00 OPIC-03

SP-02 TRSE-00 CIEP-01 LAB-04 SIL-01 OMB-01 L-03 SS-15

NSC-05 XMB-02 STR-04 FEAE-00 /105 W

----- 074101

R 211221Z JAN 76

FM USMISSION OECD PARIS

TO SECSTATE WASH DC 0191

INFO AMEMBASSY THE HAGUE

LIMITED OFFICIAL USE SECTION 03 OF 03 OECD PARIS 01900

SHARE OF GDP COULD APPROACH 75 PERCENT OVER THE NEXT FEW YEARS, THEREBY PUTTING INCREASINGLY SEVERE SQUEEZE ON PRIVATE SECTOR. DUTCH OBJECTIVE IS TO REDUCE ANNUAL INCREASE IN GOVERNMENT SHARE OF GDP TO 1.0 PERCENT BY 1977. (NEVERTHELESS, EVEN IF THEY ARE SUCCESSFUL, PRESSURE ON PRIVATE INVESTMENT WILL CONTINUE TO INCREASE, BUT AT A SLOWER RATE.)

10. DUTCH AGREED IN PRINCIPLE WITH EDRC VIEW THAT, IN MEDIUM-TERM CONTEXT, REDUCTION IN SOCIAL SECURITY TAX BURDEN ON FIRMS WOULD NOT ONLY REDUCE GOVERNMENT SHARE OF GDP BUT WOULD ALSO IMPROVE PROFITS, STIMULATE INVESTMENT AND CONTRIBUTE TO IMPROVEMENT IN MEDIUM-TERM EMPLOYMENT OUTLOOK. SOME DELEGATIONS (ESPECIALLY FRG) NOTED THAT INCREASE IN DOMESTIC ABSORPTION OF DUTCH GDP IN GENERAL, AND IN INVESTMENT SPENDING IN PARTICULAR, WAS ESPECIALLY DESIRABLE IN LIGHT OF TENDENCY OF EXPORTS (GAS) TO BECOME MORE CAPITAL INTENSIVE, AND REITERATED NEED TO REDUCE SOCIAL SECURITY TAXES ON BUSINESS. SECRETARIAT DREW CONCLUSION FROM DISCUSSION THAT CONJUNCTURAL

LIMITED OFFICIAL USE

LIMITED OFFICIAL USE

PAGE 02 OECD P 01900 03 OF 03 211239Z

AND MEDIUM-TERM OBJECTIVES WOULD BOTH BE SERVED BY EARLY REDUCTION IN THESE TAXES. DUTCH AGREED WITH ALL POINTS EXCEPT ON TIMING. POINTING TO INFLATION DANGER, DUTCH STATED THEY REMAIN COMMITTED TO STAND PAT ON THIS POLICY STANCE FOR ANOTHER YEAR, UNLESS PERFORMANCE OF ECONOMY IN 1976 FALLS FAR SHORT OF THEIR EXPECTATIONS.

TURNER

LIMITED OFFICIAL USE

NNN



## Message Attributes

**Automatic Decaptioning:** X  
**Capture Date:** 01 JAN 1994  
**Channel Indicators:** n/a  
**Current Classification:** UNCLASSIFIED  
**Concepts:** ECONOMIC DEVELOPMENT, ECONOMIC REPORTS, GOVERNMENT REACTIONS  
**Control Number:** n/a  
**Copy:** SINGLE  
**Draft Date:** 21 JAN 1976  
**Decaption Date:** 01 JAN 1960  
**Decaption Note:**  
**Disposition Action:** RELEASED  
**Disposition Approved on Date:**  
**Disposition Authority:** morefirh  
**Disposition Case Number:** n/a  
**Disposition Comment:** 25 YEAR REVIEW  
**Disposition Date:** 28 MAY 2004  
**Disposition Event:**  
**Disposition History:** n/a  
**Disposition Reason:**  
**Disposition Remarks:**  
**Document Number:** 1976OECDP01900  
**Document Source:** CORE  
**Document Unique ID:** 00  
**Drafter:** n/a  
**Enclosure:** n/a  
**Executive Order:** N/A  
**Errors:** N/A  
**Film Number:** D760022-1040  
**From:** OECD PARIS  
**Handling Restrictions:** n/a  
**Image Path:**  
**ISecure:** 1  
**Legacy Key:** link1976/newtext/t19760135/aaaabepe.tel  
**Line Count:** 322  
**Locator:** TEXT ON-LINE, ON MICROFILM  
**Office:** ACTION EUR  
**Original Classification:** LIMITED OFFICIAL USE  
**Original Handling Restrictions:** n/a  
**Original Previous Classification:** n/a  
**Original Previous Handling Restrictions:** n/a  
**Page Count:** 6  
**Previous Channel Indicators:** n/a  
**Previous Classification:** LIMITED OFFICIAL USE  
**Previous Handling Restrictions:** n/a  
**Reference:** n/a  
**Review Action:** RELEASED, APPROVED  
**Review Authority:** morefirh  
**Review Comment:** n/a  
**Review Content Flags:**  
**Review Date:** 21 APR 2004  
**Review Event:**  
**Review Exemptions:** n/a  
**Review History:** RELEASED <21 APR 2004 by BoyleJA>; APPROVED <13 MAY 2004 by morefirh>  
**Review Markings:**

Margaret P. Grafeld  
Declassified/Released  
US Department of State  
EO Systematic Review  
04 MAY 2006

**Review Media Identifier:**  
**Review Referrals:** n/a  
**Review Release Date:** n/a  
**Review Release Event:** n/a  
**Review Transfer Date:**  
**Review Withdrawn Fields:** n/a  
**Secure:** OPEN  
**Status:** NATIVE  
**Subject:** ECONOMIC AND DEVELOPMENT REVIEW COMMITTEE (EDRC) REVIEW OF NETHERLANDS, JANUARY 13, 1976  
**TAGS:** ECON, EFIN, NL, OECD, EDRC  
**To:** STATE  
**Type:** TE  
**Markings:** Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 04 MAY 2006